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Colorado's Niobrara oil play not the only game in town



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Tim Heeley is chairman of Nighthawk Production LLC, a 15-employee public company based in Highlands Ranch. Nighthawk drilled five vertical wells in Lincoln County in the last four months of 2012.

Much attention has focused on Colorado's unfolding Niobrara oil play north of Denver.

But quietly, several energy companies searching for oil have leased thousands of acres of mineral rights miles away from the booming Niobrara.

They're a mix of small private companies and large multinationals, and have focused on Colorado's Eastern Plains, an area better known for its wind-energy resources than underground oil and gas reserves.

Interest centers on five plains counties: Cheyenne, Kiowa, Bent, Prowers and Lincoln, according to industry watchers.

The counties have some oil and gas wells dating back decades, and interest in them has picked up in the last year or so.

“This is an active play,” said [David Bickerstaff](#), geologic manager for **Meagher Energy Advisors Inc.**, an Arapahoe County-based firm that specializes in selling oil and gas properties nationwide.

“They try to do the leasing as quietly as possible for competitive reasons, then comes proof of concept, or, will it work. It’s a resource play, and what’s changed in the last 10 years is the advent of horizontal drilling and hydraulic fracturing — the technology. What used to be a marginal oil field can now be drilled horizontally and exploited. The oil has always been here, but it’s the question of getting it out.”

Unlike the recent surge in drilling in Weld County’s Niobrara play, companies working in these counties don’t appear to be targeting the Niobrara rock layer, according to industry experts.

“It’s unlikely that this has anything to do with the Niobrara, because it’s too shallow there,” said [Chris Eisinger](#), senior oil and gas geologist with the Colorado Geological Survey, part of the **Department of Natural Resources**. “I think they’re going in and looking at redeveloping old wells, or using horizontal technology on the various limestone [layers] that are there.”

In Kansas, just across the state line, energy companies have had success producing oil from rock formations called the Mississippian and Pennsylvanian, laid down hundreds of millions of years ago. The interest in eastern Colorado probably stems from a belief that the same formations will be profitable in Colorado, Eisinger said.

“It’s not like this is brand new, but the interest was localized in particular sweet spots based on the traditional exploration,” Eisinger said. “Now, people are saying they can go back into areas that may not have been that great, and use these new technologies [including horizontal drilling and hydraulic fracturing] and see economic returns.”

More activity in plains counties

Leasing activity in the plains counties surged in the last 18 months, and now is shifting into wildcat drilling, according to industry watchers and executives.

“A high percentage of land in Kiowa County has been leased up — and they’re still leasing up the smaller parcels,” said [Rod Johnson](#), chairman of the resource committee for the Kiowa County Economic Development Commission.

Landmen appeared in Kiowa County in the summer of 2011, knocking on doors and offering lease contracts for mineral rights, Johnson said.

Mineral rights that used to be worth between \$0 and \$25 an acre jumped to \$200 an acre or higher, he said.

At the **Colorado State Land Board’s** February 2012 quarterly auction of state-owned mineral rights, 29 parcels were put up for bid in Kiowa County.

Two of the 29 parcels drew bids of \$55 per acre. The other 27 drew bids of between \$200 per acre and \$750 per acre, according to state records.

The land board manages 3 million acres of land and 4 million acres of mineral rights in Colorado to generate money for K-12 public school construction and education.

The number of drilling permits issued by the **Colorado Oil and Gas Conservation Commission**, the state agency that oversees the industry's operations in Colorado, is climbing in the counties, particularly in Lincoln County, which Interstate 70 bisects.

In January 2013, the COGCC issued 20 permits for new wells in Lincoln County. That's nearly two-thirds of the total number of permits, 36, the state issued for Lincoln County in all of 2012, according to state records.

And 13 of the permits issued in January were for "wildcat" wells, which are at least one mile away from any other oil or gas well, according to the COGCC.

Lincoln County has 81 active wells, the COGCC said.

"We've had quite a few oil well permits this year already," said [John DeWitt](#), the Lincoln County's local government designee, which is the liaison between the county and the COGCC. "For Weld County, 20 is probably what they do in a day, but it's a lot for us."

In the last few years, communities closer to Denver have raised concerns about health and environmental impacts as oil and gas drilling has crept closer to residential neighborhoods. But those concerns don't appear to be growing in the plains counties, according to local officials.

"We're in pretty severe drought conditions and most of this county is agriculture," DeWitt said. "So it [the leasing activity] has helped a lot of people and it's helped the county. Some of the companies prefer to drill on state land, but most all of our operators out here have been excellent. They've done a good job and done well working with our landowners."

Some of the companies testing the area are quiet about their activities.

For example, Cascade Petroleum LLC, a private, Denver-based energy company started in September 2011 declined to discuss its interests in the area. Cascade has more than \$100 million in financial backing from Denham Capital, a \$7.3 billion private-equity firm focused on energy and commodities, according to [Jordan Marye](#), managing director at Denham.

Cascade received 10 drilling permits in January for wells in Lincoln County — half of the permits issued for wells in the county during the first 30 days of 2013.

"The company is not at a point where we want to discuss this," Cascade's receptionist, [Leslie Gonzalez](#), said.

Other companies are eager to discuss their new findings.

“In the last 12 months it’s gone from a land grab under the radar to active drilling,” said [Tim Heeley](#), chairman of Nighthawk Production LLC, a 15-employee public company based in Highlands Ranch and traded on the London Stock Exchange under the HAWK symbol.

“We’ve begun to establish this is a viable play. Our plan is to prove this up. That could be five more wells, that could be 50 more wells. We’ll probably drill up to a dozen more wells this year,” Heeley said.

Nighthawk drilled five vertical wells in Lincoln County in the last four months of 2012, one of which produced enough oil to pay for drilling costs and start turning a profit within four weeks, Heeley said.

Pioneer Natural Resources (NYSE: PDX), based in Irving, Texas, has long operated in Colorado’s Raton Basin near the state’s southern border with New Mexico. But the international oil and gas company, with a market cap of \$16 billion, has recently expanded its holdings into several other southeastern Colorado counties, according to a spokeswoman, who declined to be more specific.

“Our 2013 plans include drilling several vertical wells in the area as well as collecting 3-D seismic data,” spokeswoman [Karen Brown](#) said via email. “With favorable information collected from these data Pioneer will consider drilling exploratory horizontal wells in the area in late 2013 or early 2014.”

Pioneer has four drilling permits for Lincoln County, two in Kiowa County and one in Bent County, according to the COGCC.

[Jeff Wiepking](#), a partner and manager in the three-person Wiepking-Fullerton Energy LLC, based in Englewood, has been working the plains’ counties for about 20 years. The private company has about 25 wells in the Great Plains field, about five to 10 miles southeast of Limon in Lincoln County.

The wells have been good producers for the small company, and Wiepking said he’s been watching other companies jump into the county in the last few years.

Whether they’ll be successful is another question, he said.

“I don’t know if there’s another field like the Great Plains out here; there hasn’t been enough drilling,” he said.

“But they’ll find out in the next few years. There are enough wells staked by other companies that will be drilled —and then, we will know.”

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